

Message Text

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PAGE 01 MANILA 13405 01 OF 02 031050Z

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ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 IO-14 L-03 H-03 PA-04

PRS-01 USIA-15 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SPC-03 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08 CEA-02 DRC-01

INT-08 SCEM-02 /189 W

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P 030827Z DEC 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9499

INFO AMEMBASSY ISLAMABAD PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 13405

USADB

E.O. 11652: ADS, DECLAS 3/31/74

TAGS: EAID,BYEFIN, PK

SUBJECT: PROPOSED ADB LOANS AND TA GRANT FOR MANGLA
HYDROPOWER PROJECT (PAKISTAN)

FOR CC AGENCIES

SUMMARY: ADB MANAGMENT PROPOSES TWO LOANS TOTALING \$16.7 MILLION EQUIVALENT, OF WHICH \$12,8 MILLION TO BE FROM ORDINARY CAPITAL RESOURCES AND \$3.9 MILLION FROM SPECIAL FUNDS RESOURCES, TO ISLAMIC REPUBLIC OF PAKISTAN TO FINANCE FOREX COST OF LAST STAGE OF HYDRO-POWER DEVELOPMENT AT MAGLA DAM, INVOLVING ADDITION OF TWO 100 MW UNITS TO MANGLA HYDROPOWER STATION. IN ADDITION, BANK PROPMRES \$150,000 GRANT TO WEST PAKISTAN WATER AND POWER DEVELOPMENT AUTHORITY (WAPDA) FOR ADVISORY TECHNICAL ASSISTANCE (TA) TO STRENGTHEN AND IMPROVE PAKISTAN'S POWER SYSTEM OPERATIONS. USADB RECOMMENDS LIMITED OFFICIAL USE

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PAGE 02 MANILA 13405 01 OF 02 031050Z

FAVORABLE NAC ACTION.

1. ADB DOC R 108-73 WITH ATTACHMENTS DESCRIBING PROPOSED LOANS POUCHED ADDRESSEES NOV. 27. BOARD CONSIDERATION SCHEDULED DEC. 17.

2. ADB MANAGEMENT PROPOSING \$12.8 MILLION LOAN FROM ORDINARY CAPITALUGESOURCES AND \$3.9 MILLION LOAN FROM SPECIAL FUNDS RESOURCES TO ISLAMIC REPUBLIC OF PAKISTAN. PROCEEDS WILL FINANCE FOREX COST OF INSTALLATION OF TWO UP KW TURBINE-GENERATORS AT MANGLA HYDROPOWER STATION, TOGETHER WITH NECESSARY EXTENSION OF POWER STATION TO ACCOMMODATE UNITS, INSTALLATION OF ELECTRINAL EQUIPMENT TO CONNECT GENERATING UNITS TO WAPDA GRID, AND PROVISION OF CONSULTANT SERVICES. ALSO PROPOSED IS TA GRANT OF \$150,000 TO COVER FOREX COST OF SERVICES OF EXPERTS TO ASSIST WAPDA IN ASSESSING AND IMPROVING ITS POWER SYSTEM OPERATIONS. PROPOSED TERMS ARE 25 YEAR AMORTIZATION INCLUDING 5 YEAR GRACE PERIOD, 7 1/2 PERCENT INTEREST FOR ORDINARY CAPITAL LOAN AND 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, ONE PERCENT INTEREST FOR SPECIAL DUNDS LOAN. ISLAMIC REPUBLIC OF PAKISTAN TO BE BORROWER AND WAPDA TO BE EXECUTING AGENCY. BORROWER WILL RELEND PROCEEDS TO WAPDA ON TERMS AND CONDITIONS ACCEPTABLE TO BANK.

3. NINETY PERCENT OF ALL ELECTRICITY SUPPLY IN PAKISTAN IS CONTROLLED BY TWO UTILITIES -- KARACHI ELECTRIC SUPPLY CORP (KESC) AND WAPDA. KESC SUPPLIES KARACHI AND ENVIRONS AND IS TOTALLY DEPENDENT ON THERMAL POWER GENERATION (EXCEPT FOR 125 MW KARACHI NUCLEAR POWER PLANT WHICH FEEDS DIRECTLY INTO KESC SYSTEM). WAPDA, WHICH SERVES REST OF COUNTRY, HAS MIXTURE OF APPROXIMATELY 50 PERCENT HYDRO AND 50 PERCENT THERMAL PLANTS (MAINLY GAS-DIRED) WITH LARGE HYDRO POTENTIAL AVAILABLE FOR DEVELOPMENT IN NORTHERN REGIONS. FIFTY PERCENT OF WAPDA'S ENERGY SALES ARE TO INDUSTRIAL CONSUMERS, TWENTY-FIVE PERCENT TO AGRICULTURAL CONSUMERS (FOR TUBEWELL OPERATIONS) AND ONLY ABOUT TEN PERCENT TO DOMESTIC CONSUMERS. DUE TO LIMITATIONS IN WAPDA'S GENERATION AND TRANSMISSION CAPABILITY, LOAD SHEDDING AND STAGGERING OF INDUSTRIAL WORKING HOURS ARE LIMITED OFFICIAL USE

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PAGE 03 MANILA 13405 01 OF 02 031050Z

ROUTINE, WITH UNSATISFIED DEMAND IN JUNE 1973 ESTIMATED AT ABOUT 300 MW. WAPDA'S GROWING WAITING LIST FOR NEW CONNECTIONS FROM VARIOUS CONSUMERS CANNOT BE SATISFIED FOR MANY YEARS TO COME.

4. MANGLA MULTI-PURPOSE PROJECT, SERVING BOTH POWER AND IRRIGATION REQUIREMENTS, IS MAJOR PROJECT OF INDUS BASIN DEVELOPMENT SCHEME, WHICH FOLLOWED 1960 SIGNING OF INDUS

WATERS TREATY BETWEEN PAKISTAN AND INDIA AND SUBSEQUENT ESTABLISHMENT OF MULTINATIONAL/IBRD GRANT-FUNDED INDUS BASIN DEVELOPMENT FUND (IBDF). NEWLY FORMED WAPDA WAS AGENCY RESPONSIBLE FOR PROJECT EXECUTION, INCLUDING ONE OF WORLD'S LARGEST EARTH-FILL DAMS AND RESERVOIR COMPLETED IN 1967, BUILT PRIMARILY FOR IRRIGATION PURPOSES BUT WITH PROVISION FOR EVENTUAL 800 MW OF POWER GENERATION AT MANGLA ON JHELMUM RIVER. INITIAL IBDF-FUNDED SCHEME PROVIDED FOR CONSTRUCTION OF HYDROELECTRIC POWER STATION AT MANGLA WITH INITIAL INSTALLED CAPACITY OF 3/100 MW UNITS COMPLETED IN 1968. FOURTH UNIT FINANCED UNDER BILATERAL JAPANESE YEN CREDIT WAS COMMISSIONED IN JULY 1969. UNITS NOS. 5 AND 6, FINANCED BY BILATERAL CZECH CREDIT WAS SCHEDULED FOR 1971 COMPLETION, BUT HAS BEEN DELAYED AND NOT EXPECTED TO BE COMMISSIONED UNTIL LATE 1973 OR EARLY 1974.

5. PROPOSED PROJECT CONSISTS OF INSTALLATION OF LAST TWO 100 MW HYDROELECTRIC UNITS (NOS. 7 AND 8) AT EXISTING MANGLA STATION. ASSOCIATED CIVIL WORKS WILL BE MINOR AS SUBSTRUCTURE FOUNDATIONS INCLUDING PENSTOCKS WERE PROVIDED FOR ALL EIGHT UNITS UNDER EARLIER CONTRACT. MAJOR COMPONENTS ARE TURBINE-GD34-594 -, \$ 8,35 ; -; 3 ; TRANSFORMERS AND SWITCHGEAR; CABLES AND CONTROL EQUIPMENT; EXTENSION OF POWER STATION SUPERSTRUCTURE; AND PROVISION OF CONSULTANT SERVICES. REQUIRED ASSOCIATED 320 KV TRANSMISSION FACILITIES BEING FINANCED BY ITALIAN CREDITS AND WILL BE IN OPERATION BY DEC 1976 PRIOR TO PROJECT COMPLETION.

6. TOTAL PROJECT COST ESTIMATED AT \$25.0 MILLION EQUIVALENT, OF WHICH FOREX COMPONENT OF \$16.7 MILLION, INCLUDING INTEREST AND OTHER CHARGES DURING CONSTRUCTION, TO BE LIMITED OFFICIAL USE

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PAGE 04 MANILA 13405 01 OF 02 031050Z

FINANCED BY BANK LOANS. WAPDA OR GOVT TO PROVIDE NEEDED LOCAL FUNDS. TURBINE GENERATORS AND INLET VALVES AND CONSULTING SERVICES TO BE PROVIDED FOR PROCEEDS OF ORDINARY CAPITAL LOAN FROM AMONG MEMBER COUNTRIES AND LUXEMBOURG. TRANSFORMERS, SWITCHGEAR, CABLE AND CONTROL EQUIPMENT TO BE PROCURED FROM PROCEEDS OF SPECIAL FUNDS LOAN FROM ELIGIBLE SOURCE COUNTRIES. PROCUREMENT TO BE CARRIED OUT IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT. CONTRACTS OF \$50,000 OR MORE TO BE SUBJECT TO INTERNATIONAL COMPETITIVE BIDDING WITH PRIOR BANK APPROVAL;

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PAGE 01 MANILA 13405 02 OF 02 031007Z

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ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 IO-14 L-03 H-03 PA-04

PRS-01 USIA-15 AID-20 CIAE-00 COME-00 EB-11 FRB-02

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LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08 CEA-02 DRC-01

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P 030827Z DEC 73

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LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 13405

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COTRACTS LESS THAN \$50,000 TO BE IN BASIS REASONABLE COMPETITION WITHOUT PRIOR BANK APPROVAL. PREQUALIFICATIONS, SELECTION AND ENGAGEMENT OF LOCAL CONTRACTORS SUBJECT TO BANK APPROVAL. BANK PROPOSES THAT WAPDA BE AUTHORIZED TO NEGOTIATE DIRECT WITH PRESENT CONSULTANT, PREECE, CARDEW AND RIDER (UK), WHO HAVE BEEN WAPDA'S PROJECT CONSULTANTS AT MANGLA SINCE ITS INCEPTION, IN ACCORDANCE WITH PARA 4.2 OF BANK'S GUIDELINES ON USES OF CONSULTANTS. PROJECT CONSULTANTS WILL REVIEW DESIGNS AND TENDER DOCUMENTS; ASSIST IN BID EVALUATION, CONTRACT FORMULATION AND NEGOTIATION; AND SUPERVISE POWER HOUSE CONSTRUCTION AND EQUIPMENT INSTALLATION AND COMMISSIONING.

7. WAPDA, THE EXECUTING AGENCY, WAS CREATED IN 1958 AS AUTONOMOUS AUTHORITY RESPONSIBLE FOR PLANNING WATER AND POWER FACILITIES AND ADMINISTRATION OF INDUS BASIN PROJECT. HOWEVER, ORGANIZATIONAL STRUCTURE NEEDS STREAMLINING; OPERATIONAL LOSSES ARE HIGH; INVEST-
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PAGE 02 MANILA 13405 02 OF 02 031007Z

MENT PROGRAM IMPLEMENTATION IN SOME AREAS ARE DELAYED; AND FINANCIAL PERFORMANCE OF WAPDA POWER WING BARELY ADEQUATE. PART OF PROBLEM IS THAT ORGANIZATIONAL STRUCTURE HAS BEEN THAT OF GOVT DEPT RATHER THAN POWER UTILITY, WITH WAPDA'S BOARD BEING DRAWN INTO DAY-TO-DAY OPERATIONAL AND MANAGEMENT PROBLEMS RATHER THAN SERVING AS POLICY-MAKING BODY. SENIOR STAFF HAVE BEEN SUBJECTED TO SHIFTING ASSIGNMENTS IN CIVIL SERVICE TRADITION. SHEER SIZE OF STAFF AND OPERATIONS HAVE POSED FORMIDABLE PROBLEMS. SEVERAL STUDIES AND REPORTS SPONSORED IN 1960S BY WORLD BANK AND USAID INDICATED WAPDA'S RESPONSIBILITIES TOO BROAD AND RECOMMENDED SEPARATE POWER AND WATER AUTHORITIES AND/OR DECENTRALIZATION OF DISTRIBUTION AND RETAILING WITHIN POWER AUTHORITY. ALSO RECOMMENDED MODIFIED PERSONNEL POLICIES ALLOWING RETENTION OF TRAINED TECHNICAL PERSONNEL WITHIN SPECIFIC AREAS AND ABANDONMENT OF CIVIL SERVICE PATTERN.

8. IN 1972, NEW WAPDA CHAIRMAN WAS APPOINTED WITH IMPRESSIVE TECHNICAL AND ADMINISTRATIVE BACKGROUND IN POWER AND IRRIGATION, WHO HAS BEEN DIRECTING CLOSE ATTENTION TO ORGANIZATIONAL MATTERS. VARIOUS IMPROVEMENTS IN POWER WING HAVE BEEN INITIATED, AND FUNDAMENTAL REORGANIZATION OF POWER SECTOR IS NOW UNDER ACTIVE CONSIDERATION. BANK TO BE KEPT INFORMED OF ALL MAJOR CHANGES. TO ASSIST WAPDA IN IMPROVING OPERATIONAL EFFICIENCY AND FINANCIAL PERFORMANCE, BANK PROPOSES TO PROVIDE \$150,000 TA GRANT OF ADVISORY AND INSTITUTIONAL BUILDING NATURE. THIS WOULD FINANCE TEAM OF EXPERTS IN POWER SYSTEM OPERATIONS TO ASSESS EXISTING ARRANGEMENTS AND RECOMMEND IMPROVEMENTS IN OPERATIONAL PROGRAMS AND PROCEDURES AND PHYSICAL FACILITIES, WHICH SHOULD HELP TO REDUCE OPERATIONAL COSTS AND IMPROVE SYSTEM RELIABILITY. IN ADDITION, WAPDA AND GOVT HAVE AGREED TO FINANCE PAKISTANI ACCOUNTING CONSULTANTS, PRIOR TO OCT 1974, TO ASSIST IN IMPROVING ACCOUNTING SYSTEM, PARTICULARLY TO INVENTORY AND REVALUE ASSETS OF POWER WING, RECONSTRUCTION ACCOUNTS AND PREPARE APPROPRIATE FINANCIAL PROJECTIONS. THIS WORK TO PROVIDE BASIS FOR CONSULTATIONS BETWEEN BANK AND WAPDA ON TARIFF ADJUSTMENTS OR OTHER REQUIRED FINANCIAL MEASURES REQUIRED TO ASSURE SOUND FINANCIAL OPERATIONS

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PAGE 03 MANILA 13405 02 OF 02 031007Z

(SIDE LETTER NO. 5, PARA 3).

9. IN VIEW PAKISTAN'S ECONOMIC POSITION WITH LOW PER CAPITA INCOME AND SUBSTANTIAL DEBT SERVICE OBLIGATIONS, BANK CONSIDERS FINANCING ON CONCESSIONAL TERMS JUSTIFIED. PROPOSED BLEND OF LOANS YIELDS OVERALL GRANT ELEMENT OF

36 PERCENT WHICH APPROXIMATES THAT ACHIEVED IN BANK'S LENDING TO PAKISTAN IN 1972. IT IS ALSO COMPATIBLE WITH EFFICIENT PROCUREMENT ARRANGEMENTS.

10. PROPOSED PROJECT CONSIDERED TECHNICALLY, FINANCIALLY AND ECONOMICALLY SOUND AND IS GIVEN HIGH PRIORITY BY BOTH GOVT AND WAPDA IN VIEW PRESENT INADEQUATE POWER GENERATING CAPACITY. INCREASED POWER SUPPLY TO BE UTILIZED PRIMARILY BY INDUSTRIAL AND AGRICULTURAL CONSUMERS. INCREMENTAL CAPITAL COST ON PER KILOWATT BASIS TO BE VERY LOW AND CONSIDERABLY LESS THAN OTHER THERMAL OR HYDRO ALTERNATIVES AVAILABLE. ECONOMIC INTERNAL RATE OF RETURN ESTIMATED AT 21.3 PERCENT AND FINANCIAL RATE OF RETURN AT 18 PERCENT. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

1. REQUEST ISLAMABAD'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972. SULLIVAN

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Message Attributes

Automatic Decaptioning: X
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Current Classification: UNCLASSIFIED
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Copy: SINGLE
Draft Date: 03 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
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TAGS: EAID, EFIN, PK, ADB
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Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005